

## **SECTION II:**

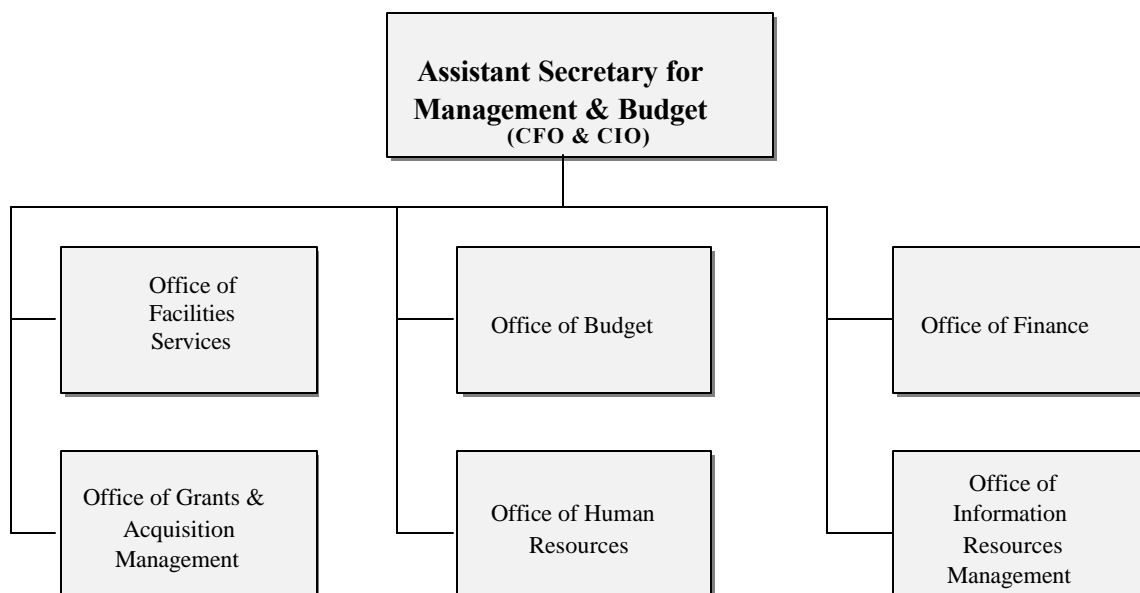
### **OVERVIEW OF FINANCIAL MANAGEMENT: ISSUES AND ACCOUNTABILITY**



## Overview of Financial Management: Issues and Accountability

### FINANCIAL MANAGEMENT RESPONSIBILITY AND ORGANIZATION

HHS had net outlays of \$359.7 billion in FY 1999 (21.1% of the Federal budget). Therefore, we have an enormous responsibility for financial accountability. HHS is a key player in the Governmentwide financial statement audit, which was prepared for the first time for FY 1997. In 1993, the Administration first promoted the idea of a Governmentwide financial statement audit in the Vice President's National Performance Review report on "Improving Financial Management" (Recommendation FM 10.1). The Administration also strongly supported the Government Management Reform Act (GMRA) of 1994, which amended the CFO Act of 1990, and expanded financial statement audit coverage to include Departmentwide and Governmentwide audited financial statements. This Accountability Report demonstrates our involvement in, and our dedication to, the Administration's commitment to strong financial management. All HHS managers with responsibility for Federal resources are, to some degree, financial managers. However, official responsibility for financial management matters is delegated from the Secretary to the Senate-confirmed CFO who also holds the titles of Assistant Secretary for Management and Budget (ASMB) and Chief Information Officer (CIO). The Offices of the ASMB are illustrated in the accompanying organization chart. Other ASMB responsibilities include the functions of budget, human resources, grants, acquisitions, and facilities services.



The Office of Finance, which prepares this Accountability Report, is headed by the Deputy Assistant Secretary for Finance who is also the Deputy Chief Financial Officer (DCFO). This office is responsible for implementation of an ever-increasing volume of Federal financial legislation and initiatives within an environment of evolving technologies, limited staffing, and cost containment. The list of legislation related to financial management includes:

- Prompt Pay Act of 1982 (as amended)
- Federal Managers Financial Integrity Act (FMFIA) of 1982
- Chief Financial Officers (CFOs) Act of 1990
- Cash Management Improvement Act (CMIA) of 1990
- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act (GMRA) of 1994
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Debt Collection Improvement Act (DCIA) of 1996
- Information Technology Management Reform Act (ITMRA) of 1996
- Travel and Transportation Reform Act of 1998
- Federal Activities Inventory Reform Act (FAIRA) of 1998

The Office of Finance has responsibility (in partnership with our OPDIVs) for many new and ongoing initiatives such as: developing and implementing accounting and financial policies, systems and reports; resolving financial statement audit findings; implementing financial and program performance measurement; prompt payment; budget execution; improving reliability of financial information; policy development and coordination for debt collection; implementing all financial management legislation; and integrating all of the financial management initiatives. These initiatives are coordinated with the various OPDIVs of HHS through the policy-level HHS CFO Council and the operating-level Financial Policies Group (FPG).

## **FINANCIAL MANAGEMENT PERFORMANCE : HIGHLIGHTS OF FY 1999 ACCOMPLISHMENTS AND FINANCIAL MANAGEMENT STATUS**

In FY 1999 financial managers from across HHS developed a more performance-oriented plan for improving the Department's financial management. This new plan resulted in a reformatted CFO Financial Management Status Report and Five Year Plan (the CFO Five Year Plan), showing performance targets for each of the next five years, as well as baseline information for each performance measure (where available). HHS developed two broad strategic goals for financial management that will help build the Department's financial management infrastructure and carry out its mission.

All of the CFO Five Year Plan's strategies, activities, and performance measures support one or the other of these two goals. The FY 1999 CFO Five Year Plan is organized by these two broad strategic goals, which are supported by almost 100 financial performance measures and targets.

This Accountability Report provides actual FY 1999 performance results compared to the FY 1999 performance targets. A three-year historical trend of actual results is presented, where information is available.

When performance meets or exceeds a target, it is noted with a



Where targets have not yet been met, a discussion is included in this report.

### **Financial Management Strategic Goals**

**Goal I: Decision Makers Have  
Timely, Accurate, and Useful  
Program and Financial  
Information**







**Goal II: All Resources are Used  
Appropriately, Efficiently, and  
Effectively**




### **Modification in Target Year Identification**





Our original approach for establishing goals and targets related to the financial statement audit tried to reflect the fact that audit results are not available until the subsequent year. Thus, a goal related to the FY 1999 financial statements would come under the heading "FY 2000 Target (Covering FY 1999 Opinion). However, we have realized that this approach was cumbersome and, at times, confusing because for any given fiscal year some targets related to the stated year and others related to a prior year.

In the FY 1999 HHS Accountability Report, we have converted all targets to the fiscal years for which they related. In other words, targets related to the FY 1999 audit opinion are found under FY 1999 Target, even though the results are not known until almost mid-FY 2000. Future Five-Year Plans will incorporate this conversion.

**Strategic Goal I: Decision makers have timely, accurate, and useful program and financial information.**






Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
Audited financial statements for HHS and HCFA are submitted to OMB by 3/1.	1996: No	No	Yes	Yes	Yes	Requirement of GMRA. 
Departmentwide opinion is clean.	1996: No	No	No	Yes	Yes	This is a first for the Department. 
Number of Department level qualifications.	1996 - 7	5	2	0	0	
Number of Department level internal control material weaknesses.	1996 - 5	5	3	3	3	
Number of Department level internal control reportable conditions.	1996 - 5	3	5	4	5	Details concerning reportable conditions are included in the Audit Opinion. 
Number of Department level FFMIA instances of non-compliance.	1997	3	3	3	3	The HHS FFMIA Remediation Plan is found in the HHS FY 1999 CFO's Five Year Plan. 
Percent of estimated improper Medicare fee-for-service payments.	1996 - 14%	11%	7.1%	7.97%	7%	The FY 1999 Actual figure is a draft estimate, as this report goes to print.

Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
Number of financial and financial-mixed mission critical and non-mission critical systems/applications that are Y2K compliant.	1998	n/a	n/a	100%	100%	
Percentage of OPDIVs providing grants data to Tracking Accountability in Government Grants System (TAGGS).	1998	n/a	83% (10 of 12)	100%	92% (11 of 12)	
Number of HHS employees with access to TAGGS data.	1998	n/a	10	All HHS Employees and public	50	TAGGS is now on the Internet. 
Payment Management System state of development and implementation.		Under Develop-ment	Under Develop-ment	Under Develop-ment	To Be Opera-tional	This is a PSC system which makes grant payments. It has been designated by the US CFO Council as one of two grant payment systems to be used by all civilian agencies. Scheduled to be operational April 1, 2000. Implementation had been delayed due to Y2K remediation efforts.
Financial Assistance Reporting System (FARS) state of implementation.		Under Develop-ment	Under Develop-ment	Under Develop-ment	To Be Opera-tional	This is a PSC system which reports Federal assistance awards by Congressional district. Implementation is now planned for April 1, 2000.



Measure	Baseline	Performance Trend				Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual	FY 1999 Target	
Number of mission critical financial systems/applications that are Y2K compliant.	1998	n/a	3 of 20	23 of 24	23 of 24	As of December 1999 (FY 2000), 24 of 24 was achieved. 
Total number of Departmental Accounting Manual (DAM) chapters on Internet.	1998	n/a	13 of 52	21 of 53	18 of 52	Two old chapters were revised and one new chapter on reimbursable accounting was added. 
Percent of DAM pages on the Internet.	1998	n/a	18.2%	48%	40%	Many old chapters are not in electronic form. They must be re-typed and/or revised before posting. 
Percent of Grants Administrative policies available on the HHS Intranet and Internet.	1998	n/a	70%	100%	80%	







**Strategic Goal II: All resources are used appropriately, efficiently, and effectively.**

Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
Percent of vendor payments made on time.	1997	89.7%	91%	96.4%	95%	In FY 1999, HHS achieved its highest-ever prompt payment rate. 
Percent of grant payments made via EFT.	1997	100%	100%	100%	100%	Measure excludes foreign grants, fellowships, and limited other categories accounting for less than one percent of total grant dollars. 
Percent of salary payments made by EFT.	1997	98%	97%	99%	100%	
Percent of vendor payments made via EFT.	1997	42%	77%	85%	69%	Excludes credit card purchases. 
Percent of travel payments made via EFT.	1997	43%	90%	93%	69%	
Percent of eligible purchase transactions made on government purchase card.	1997	77%	70%	85%	80%	
Percent increase in debt collections over prior year.	1998	n/a	\$13.3B	7% (\$14.2 B)	10% (\$14.6B)	HCFA's performance has a major impact on Departmental performance. As part of the FY 1999 financial statement audit process, HCFA's efforts related to accounts receivable focused on validating the Medicare contractor receivables balances. HCFA's FY 2000 efforts will increase focus on debt referral/collections.

Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
Percent of eligible non-waived delinquent debt referred to Treasury for cross-servicing.	1998	n/a	0%	22.8%	100%	HCFA's performance has a major impact on Departmental performance. As part of the FY 1999 financial statement audit process, HCFA's efforts related to accounts receivable focused on validating the Medicare contractor receivables balances. HCFA's FY 2000 efforts will increase focus on debt referral/collections.
Percent of eligible waived delinquent debt referred to PSC for cross-servicing.	1999	n/a	n/a	3.7%	100%	See above.
Percent of eligible delinquent debt referred to Treasury for offset.	1998 (2nd quarter)	n/a	20.20%	10.5%	100%	See above.
Dollars of child support payments collected.	1998		\$14.367B	\$15.5 Based on info available as of 2/11/2000	\$16.3	Figures for child support enforcement collections are often revised upward as more states report collection activities over time.
Number of OPDIVs with established IT architecture and investment analysis/capital planning process.	1998	n/a	2 (ACF & NIH)	6	7	6 OPDIVs have met the target. Another OPDIV has an investment analysis/capital planning process and is working with ASMB on the HHS IT architecture.

Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
Number of prior year Department level FMFIA material weaknesses resolved.	1997	4	1	0	3	
Number of new Department level FMFIA material weaknesses identified in current year.	1997	3	2	1	TBD	New weakness identified: financial systems and reporting.
Number of Department level FMFIA material weaknesses pending at year end.	1997	9	6	6	3	Two material weaknesses for Medicare EDP Controls were combined into one weakness with two parts.
Amount of outlay variance compared with outlay estimate.	1997	1.7%	-1.60%	-2.90%	+/- 1%	If HCFA (Medicare and Medicaid) were excluded in the FY 1999 Actual figure, the variance would have been - 1% (on target).
Percent of apportionments approved within 3 weeks.	1997	46%	45.90%	76.60%	50%	
Percent of apportionments approved within 4 weeks.	1997	70%	56.8%	91.0%	75%	

Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
President's Budget reflects final figures from Standard Form 133 on Budget Execution and FACTS II.	FY 1999	n/a	n/a	11 of 12 OPDIVs for FY 2000 sub-mission	12 of 12	OPDIVs Provide both the information for the Standard Form 133s and the Program and Financing Schedule of the budget submission so the information should reconcile and there should be no discrepancies. The target is for all of the OPDIVs and HHS as a whole to have consistent data in both documents. The SF 133 information will begin to be reported on in the FACTS II electronic reporting system starting in the Fall of 1999. This will eventually eliminate the need for reconciling FMS 2108, SF 133, and Program & Financing Schedule in the President's budget.
Number of Department level EDP material weaknesses cited by auditors.	1997	1	1	1	0	For details, see auditor's opinion in Section V.
Number of Department level EDP reportable conditions cited by auditors.	1997	0	0	1	0	For details, see auditor's opinion in Section V.
Reduction of average time for resolution of cross-cutting audits compared with prior year.	1998	n/a	151	113	3%	A 25% reduction was achieved. 

Measure	Baseline	Performance Trend			FY 1999 Target	Comments
		FY 1997 Actual	FY 1998 Actual	FY 1999 Actual		
Number of training hours offered times the number of attendees at the HHS in-house financial training sessions.	1998	n/a	480	2540	600	In FY 1999 we stepped up our training efforts to ensure we had done everything possible to prepare staff to obtain a clean opinion. Additionally, we offered several sessions on Budget Execution. Some training was performed by contractors, sponsored by ASMB. Some training earned CPE, whether awarded by HHS or contractor. 
HHS receives and retains official certifications as a finance CPE sponsor.	1998	n/a	No	Yes	Yes	HHS was awarded with CPE sponsorship certification in June 1999. 
Number of OPDIVs with succession planning strategies for financial management staff.	1998	n/a	2 (NIH, HRSA)	3 (NIH, HRSA, PSC)	3 (NIH, HRSA, PSC)	The 3 OPDIVs cited report having succession planning strategies. 

### **Quality of Work Life**

The Secretary's Quality of Work Life Initiative, launched in 1997 to improve employee satisfaction, enhance workplace learning and improve the management of change and transition, completed its second full year. The HHS Union-Management Partnership Council continues to serve as the steering committee for this effort.

For the second year in a row the HHS-wide annual employee survey results showed an improvement in employee satisfaction. The improvement was both statistically significant and widespread, with ten out of twelve OPDIVs increasing their scores. Most remarkably one OPDIV, which engaged in a full-scale improvement effort, jumped from next to the last in the standings to first, setting a new high for the Department at the same time. While each of the OPDIVs tailored its quality of work life efforts to meet the special concerns of its employees, there have been HHS-wide accomplishments as well.

Based on recommendations made at an HHS conference on Family-Friendly Work Options, restrictions on managers' use of flexible work options was rescinded. Also as a result of recommendations from the conference, three pilot projects to replicate work done in the private sector to help employees better balance work and family life, while simultaneously improving mission accomplishment, are underway. Responding to the need to better manage change, a cadre of employees from across HHS have been trained as "change agents" to assist with or lead management of change and transition in their respective organizations.

This year also saw the initiation of several major new projects to continue the improvements already underway. In response to the President's Executive Order 13111, "Using Technology to Improve Training Opportunities for Federal Government Employees," a study to develop a design for a distributed learning network to further enhance employee development opportunities is just being completed, and recommendations are expected shortly. Utilizing the concept of "any place, any time learning," this project would bring learning and information directly to the employee's desktop, giving every employee access to consistent, high-quality learning and information. A major initiative using Appreciative Inquiry to develop a vision for a truly diverse and inclusive work environment has been launched, and a Departmentwide conference on diversity and inclusion is scheduled for early March 2000. What began as an initiative is increasingly becoming "business as usual," with attention to the quality of work life being seen as simply a good management practice.

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### **Automated Financial Statements**

In the past, HHS, Office of Finance manually prepared the department's financial statements. The manual process of consolidating the HHS OPDIVs Financial Statements was labor intensive, time consuming and prone to errors. In last year's audit this process was considered a material weakness.

To begin the first step of implementing a process that will consolidate the department's statements, the Office of Finance implemented an online web-based system to collect and automate the financial statement reporting process. The on-line web-based Automated Financial Statements System (AFS) will provide immediate access to OPDIV Financial Statements, track all changes, automatically update the Departmental Statements and Notes and produce printable and electronic formats of the Financial Statements.

Future plans include evaluating the feasibility of directly linking the OPDIV statement files with AFS, improving the reporting and publication process and developing a long-term solution for the Department.

### **Travel**

During FY 1999, HHS and its new travel card contractor, successfully converted over 40,000 employee cardholders to the VISA travel card. The major travel card program change planned for FY 2000 is the rollout of the travel card contractor's Customer Automation and Reporting Environment (C.A.R.E.) system to provide automated support for travel card administrative and reporting functions.

During FY 1999, HHS formed a Task Force to make policy recommendations and facilitate the HHS implementation of travel regulations stemming from the Travel and Transportation Reform Act (TTPR) of 1998. Mandatory travel card use is one of the major provisions of the law. The Task Force, composed of union, operating and staff division representatives, will continue its efforts and play a key role in successful HHS implementation of these new regulations during FY 2000.

Also during FY 1999, HHS formed a Task Force to convert the Department's Travel Policy Manual into electronic form, while updating

chapters as necessary. We also developed a table of contents for a HHS Travel Policy web site and identified “hot links” to GSA travel regulations and other internet sites of interest for HHS travelers. The web site became operational during calendar 1999.

### **Debt Collection**

HHS has successfully implemented the two main provisions of the Debt Collection Improvement Act (DCIA) of 1996. While delinquent debt has been referred to Treasury for cross-servicing and offset, much work remains to be done with HCFA Medicare contractor debt which has proved particularly difficult to validate for DCIA referral purposes. HCFA is working to implement a corrective action plan to refer these debts.

HHS wrote off \$2.9 billion in fiscal year 1999. Much of this debt was written off using OMB Circular A-129 guidance, which removed it from HHS financial statements, though efforts to collect it using DCIA’s collection tools will continue. The majority of this debt is Medicare Secondary Payer debt, which will be referred to the Program Support Center (PSC), for additional collection action. The PSC will also refer this debt to the Treasury Offset Program (TOP).

HHS centralized the DCIA delinquent debt referral process in one place by establishing the PSC as HHS’ delinquent debt collection center. Additionally, HHS obtained a cross-servicing waiver for a number of different types of program debts (e.g. Medicare Secondary Payer, unfilled Medicare cost reports and various health professional loans). The PSC will cross-service these debts itself and refer them to TOP.

HHS and Treasury have worked together to assist states in referring delinquent child support debts to the Treasury Offset Program, a voluntary program, in addition to referring these debts to the Internal Revenue Service’s Tax Refund Offset Program.

Applicants in various HHS loan programs, primarily health professions program, are screened for outstanding delinquent debt as part of the loan application process. This activity also involves working with private sector lenders in some programs.

HHS has made extensive use of private collection agencies. As one of the PSC’s aggressive collection tools, delinquent debts may be referred to the private sector for additional collection action.



## THE PROGRAM SUPPORT CENTER'S (PSC'S) FINANCIAL MANAGEMENT SERVICE



The Financial Management Service (FMS) supports the financial operations of HHS and other departments through the provision of payment management services, cost allocation negotiation, general accounting support, debt management and collection and development of systems and reports for workforce management. The FMS also provides specialized ADP systems development in the area of workforce management.

Significant FMS/PSC FY 1999 accomplishments include:

- Completed 1,972 negotiation assignments that produced \$440 million in cost savings and negotiated cash refunds of approximately \$45 million.
- Timely payments to vendors have been consistently above the 95% OMB requirement. The FY 1999 rate was 98.3%, up from 97.4% in FY 1998.
- The percentage of vendor payments made by electronic funds transfer (EFT) rose from 49% in FY 1998 to 75.9% in FY 1999.
- Referred more than \$160 million in delinquent debt owed by customers to the Treasury Administrative Offset Program.
- Processed 268,977 payment transactions totaling more than \$179 billion in grant funds. Also added 1,491 grant recipient accounts for a total of more than 22,400 customers.
- Received an unqualified opinion on the SAS 70-audit report on the Payment Management System for the fourth consecutive year.
- Distributed approximately \$1.3 billion in federal tax offsets from individuals with delinquent child support payments to participating states in FY 1999.
- Received a decision from Federal District Court confirming our Division of Cost Allocation findings that the State of California should refund \$240 million in applicable credits and interest to the federal government. The state has appealed the decision to the appellate level.

## **Trust Fund Solvency**

### **Medicare Part A Trust Fund Solvency**

The part of Medicare that pays for hospital insurance (the Part A Hospital Insurance (HI) Trust Fund) is financed primarily by payroll taxes paid by workers and employers. The taxes paid each year are used mainly to pay benefits for current beneficiaries. Income not currently needed to pay benefits and related expenses is held in a trust fund and invested in U.S. Treasury securities.

The financial projections shown for the HI program in the 1999 Trustees Report (which reports on calendar 1998) represent a considerable improvement over those shown in the 1998 report. The improvement arises from higher payroll tax revenues in 1998 than had been estimated and lower benefit expenditures, together with adjustments to projected income and expenditure growth for the future based on this experience. In 1998, HI income exceeded expenditures by \$4.8 billion – the first time in four years that the trust fund has experienced a positive cash flow on an annual basis. Collectively, these impacts are estimated to postpone the depletion of the HI trust fund from 2008 until 2015.

### **Medicare Part B Trust Fund Solvency**

The part of Medicare that pays for supplementary medical insurance (the Part B Supplementary Medical Insurance (SMI) Trust Fund), primarily physician and outpatient care, is financed primarily by appropriated funds (73%) and monthly premiums paid by beneficiaries (24%). Interest income makes up for the remainder. Income not currently needed to pay benefits and related expenses is also held in a trust fund (separate from the hospital insurance trust fund) and invested in U.S. Treasury securities. This trust fund is expected to remain adequately financed into the indefinite future because beneficiary premiums and government contributions are set (by law) to meet expected costs each year. Program costs have generally grown faster than the GDP and this trend is expected to continue under present law.

For more detailed information on the Medicare Trust Funds, please refer to the Trustees' reports at the HCFA web site: <http://www.hcfa.gov>

## **Understanding Medicare Trust Fund Investments**



The Medicare trust fund assets are invested in U.S. Treasury Securities, which earn interest while Treasury uses those resources for other purposes (decreasing the Treasury's need to borrow from the public in order to finance the Federal debt). Unlike the assets of private pension plans, trust funds do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. (When financed by borrowing, the effect is to defer today's costs to even later generations who will ultimately repay the funds being borrowed for today's Medicare beneficiaries.) The existence of large trust fund balances, therefore, does not make it easier for the Government to pay benefits.